
# Commercial Banking Sector in Pakistan

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## Historical Background

At independence in 1947, most of the banks in Pakistan were branches of Indian banks. The number of bank offices before partition was 631, but it declined to only 195 in July 1948. Pakistan had no central bank for nearly a year after partition, and this gap was initially filled by Habib Bank, which was established in 1941. On 1st July 1948, Quaid-e-Azam Muhammad Ali Jinnah inaugurated the State Bank of Pakistan (SBP) as the Central Bank of the country.

In October 1948, a series of bank notes were issued on an emergency basis with the help of Thomas De La Rue & Company of Great Britain and later by the Pakistan Security Printing Corporation, established in 1949. The Banking Companies Control Act was also promulgated in 1948, defining the role of SBP. Subsequently, in November 1949, the National Bank of Pakistan (NBP) was set up to promote banking in Pakistan.

By 1970, the number of bank branches in the country had grown to 1,591. By 1972, Pakistan had 14 banks operating within its borders. However, in 1974, all the banks were nationalized through the Nationalization Act, 1974, and consolidated into six nationalized banks. This move marginalized the SBP's role as a regulator, as the Pakistan Banking Council was set up to monitor the nationalized banks.

In 1991, through an amendment in the Bank Nationalization Act, 23 new banks were established, and the landscape of the banking sector started to change. In the same year, the Muslim Commercial Bank (MCB) was privatized. In 1993, the majority ownership of Allied Bank was transferred to its management, indicating further changes in ownership structures.

As the years passed, the banking sector continued to evolve, and by 1997, there were four major state-owned banks. By 2010, the composition of the banking sector had diversified, with five public commercial banks, 25 domestic private banks, six foreign banks, and four specialized banks operating in Pakistan. These changes reflect the dynamic nature of the country's banking industry over the decades.

## Current Landscape of Banking Sector

Banking sector assumes significant importance in the financial sector. As per SBP, this sector constitutes around 74% of the financial sector's assets and measures up to 55% of GDP. As of March 31 2023, 29 Commercial Banks are operating in Pakistan, comprising of five Public Sector banks; 20 Local Private Banks and 4 Foreign Banks.

The total market capitalization of Commercial Banks listed on PSX stood at Rs. 1121.93 billion as on 30th June 2022. As per the Pakistan Economic Survey 2023, the market capitalization of Commercial Banks declined by 11.7% to Rs. 990.47 billion on 31st March 2023. As of March 2023, the key variables of commercial banking sector were as under:

*(Rupees in Billion)*

| | Public Sector Commercial Banks | | Local Private Banks | | Foreign Banks | |
|---|---|---|---|---|---|---|
| **Key Variable** | **Mar-2023** | **Mar-2022** | **Mar-2023** | **Mar-2022** | **Mar-2023** | **Mar-2022** |
| Total Assets | 8,446 | 5,909 | 28,034 | 26,689 | 1,649 | 846 |
| Investment (net of provisions) | 5,008 | 3,160 | 13,374 | 11,516 | 897 | 602 |
| Advances (net of provisions) | 1,956 | 1,884 | 9,310 | 8,246 | 374 | 113 |
| Borrowings | 2,931 | 1,041 | 5,044 | 4,111 | 949 | 422 |
| Deposits | 4,668 | 4,130 | 19,637 | 16,772 | 501 | 312 |
| Liabilities | 8,044 | 5,518 | 26,508 | 22,271 | 1,511 | 761 |
| Paid up Capital | 96 | 88 | 374 | 369 | 73 | 50 |
| Profit after tax | 13 | 11 | 114 | 69 | 19 | 4 |
| Non-Performing Loans | 352 | 307 | 594 | 515 | 2 | 2 |

*Source: SBP Quarterly Compendium: Banking Statistics [March 2023]*

# SWOT analysis of Commercial Banking Sector

## Strengths

- Robust Regulatory Framework
- Diversified Asset Portfolio
- Growing Deposits Base
- High liquidity levels
- Improved risk management
- Strong capital adequacy
- Large profitability
- Active interbank market
- Increasing digitalization
- Improving financial inclusion
- Robust Anti-Money Laundering (AML) Measures
- Strong remittances inflows

## Weaknesses

- High level of non-performing loans
- Fluctuations in interest rates
- Currency Depreciation
- Limited Financial Inclusion
- Decline in lending to private sector
- Limited Technological Integration
- High Operating Costs
- Limited Long-Term Funding
- Market Concentration
- Huge unbanked sector
- Limited Reach in Rural Areas
- Government Debt Exposure

## Opportunities

- Expanding financial inclusion
- Digital Transformation
- Mobile Banking and Payments
- Strengthening support for SMEs
- Growing demand for Islamic banking services
- Expanding microfinance services
- Infrastructure Financing under public-private
- Green Financing
- Agricultural Value Chain Financing
- Collaborations with Fintech companies

## Threats

- Political uncertainty
- Economic Instability
- Climate Change Risks e.g. floods
- Cybersecurity risks
- Fiscal and Monetary Policy Impacts
- Sovereign Debt Risks
- Technological disruptions
- Funding and Credit Risks
- Competition from Fintech companies
- Challenges of AML/CFT compliances
- High levels of non-performing loans